GOVERNMENT OF ANDHRA PRADESH

ABSTRACT

CAF & CS DEPARTMENT – Conversion of Fair Price Shops into Village Malls – Terms and Conditions of MoU with the suppliers of FMCG., products for Village Malls – Approved – Orders – Issued.

CONSUMER AFFAIRS, FOOD & CIVIL SUPPLIES (CS.I) DEPARTMENT

G.O.RT.No. 43 Dated: 13-06-2018.

Read:

Note from the VC & MD., A.P. State Civil Supplies Corporation Ltd., dated:16-04-2018.

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ORDER:

In the reference read above, the Vice-chairman and Managing Director, A.P. Sate Civil Supplies Corporation Ltd., Vijayawada has stated that the Reliance Retail Limited has been empanelled and appointed as supplier of FMCG products for Village Mall Initiative and the work order has been issued accordingly vide work order Lr. No. Mktg. M6/4222/2016, dated:07-11-2017. The vendor was asked to enter into MoU with APSCSCL. Subsequently, the vendor has initiated action for conversion of FP Shops into Village Malls at Guntur and Vijayawada under pilot. The pilot was successfully inaugurated by Hon'ble Chief Minister on 12.12.2017. Mr. Madhavan Ganesan, CFO on behalf of Reliance Retail Limited has responded to the terms & conditions of the initiative and requested for deliberations with the corporation. Consequent upon the request of vendor, a meeting was held at head office APSCSCL and the vendor has come back with the following proposal with reference to the terms & conditions of MoU after having elaborative discussions during the meeting.

Program rollout: Reliance Retail to support the rollout of 5000 FPS under Phase I of the Program; with 500 sites in each of the 10 Districts allotted to us. Reliance Retail would be in a position to cover about 200 in the month of January 2018 and thereafter cover 1750 a month; so that Reliance Retail can complete the program by end April 2018. Reliance Retail requires a couple of weeks to mobilize the execution team and vendors across the various locations once identified. It would really help if Reliance Retail can get the specific location details at the earliest; both for the priority list of 200 sites as also the balance 4800 sites. Reliance Retail also seeks support in ensuring that the identified FPS sites are aware and cooperate during execution.

Program Management: To ensure proper on ground coordination of rollout; Reliance Retail will have 10 Program Coordinators – one located in each of the 10 District Headquarters. These program coordinators will coordinate with the FPS Owner as also our internal EPC teams and third party vendors who will be doing the actual execution on site. The Program coordinators will be supported by a couple of team members as required; and will be managed by a team of 3 Senior personnel (who will oversee 3; 3 and 4 districts each). Reliance Retail expect that each site on end to end basis will take a maximum of two weeks and once Reliance Retail initiate the rolling program; Reliance Retail should target to do 175 in each District every month or about 50 a week per District.

Capital Expenditure and Support: Reliance Retail discussed that the objective is to have every FPS remodeled to look and feel consistent and in line with the Pilot stores. Reliance Retail are happy to support towards achieving this objective. Mr. Madhavan Ganesan shared that on an average Reliance Retail have incurred a capital expenditure of about Rs 3 lakhs per Pilot store; based on the 10 Pilots done so far. The actual costs could vary by site. Reliance Retail recognize that our commitment was towards store branding fixtures as also retail shelves and fixtures; and to cover the balance costs; the AP Government has held discussions on providing part support by the AP government + arranging support under the MUDRA scheme for the FPS owners. There are challenges in this and this may delay the process as also make it administratively inconvenient to execute so many small loans for the FPS owners.

Reliance Retail proposed that, to speed up the program, Reliance Retail could enable and support by a combination of (a) Reliance funding 50% of the capital expenditure and (b) extending soft loan support to the FPS owner at a low interest rate of 8% for the balance capital expenditure. The soft loan component of 50% and interest amounts could be repaid to Reliance through EMI adjustment to the Monthly Income from the sale of items.

Considering that Reliance Retail need to keep the monthly EMI low and in context of the proposed changes; Reliance Retail request that Reliance Retail make the FPS initiative a committed 5 year program.

Range and Pricing: Reliance Retail has taken immediate pricing action on the key set of Staple items as required. Reliance Retail believes that the response has been positive and continues to see good sales and replenishment requirements. In the coming weeks Reliance Retail will work towards introducing modified packs of Staples which meet the standard quality and price benchmarks as used by bulk of the consumers served by FPS. Reliance Retail will ensure that our quality standards are better even as Reliance Retail offer competitive prices. Reliance Retail is in the process of reviewing the list of FMCG products that are kept in the stores; and will adapt as required.

A list of preferred 300+ FMCG items has been shared and Reliance Retail will work on making these available to the stores on priority. On an ongoing basis, the entire catalogue of over 15,000 lines will be available for the FPS owners to order from. The Point of Sale Devices that Reliance Retail have deployed will support this and Reliance Retail will support the FPS owners in understanding and using the capabilities. Reliance Retail will execute a system wherein our team will continue to engage with the FPS owners across Districts and take their feedback on what items they want to keep and also what is appropriate market benchmark rates; so that the range of items sold and sales is always improving.

Inventory Investment: Reliance Retail discussed briefly on the investment that the FPS owner would be required to make on Inventory; and what support is possible. As I mentioned; based on current experience Reliance Retail believe that each store could have an inventory investment of about 2-2.5 lakhs. Reliance Retail have to make the items Reliance Retail actually keep in the store as fast moving and by experience this will only improve. Further given the size of the stores, Reliance Retail cannot carry every item in physical inventory; and most items will be ordered for sales to end customers; based on end customer orders. Therefore Reliance Retail will work to ensuring that the inventory investment in each site is optimized and maintained at an average level of say 2 lakhs. Most importantly Reliance Retail would like the FPS to perform well and drive higher sales to provide better income to the FPS owner. Based on preliminary sales in the Pilot, Reliance Retail believe that the stores can quickly mature to support sales of 3-4 lakhs at least a month. Reliance Retail will provide the FPS owner the required inventory credit of up to 2 lakhs to cover expected inventory investment for this level of sales.

Operational Support : Reliance Retail also discussed ongoing operational support issues; and Reliance Retail will provide required operational training to the FPS owner on the store planogram and how to maintain the store in good condition. Reliance Retail will also help setup the cash collection process so that on a daily / once in two days basis the sales cash is collected and deposited with us. These cash as collected and deposited with us will be treated as part payment towards the inventory and therefore help ensure that on an ongoing basis the aggregate inventory investment and sales proceeds are matched. Additional operational details on monthly sales reconciliation; stock reconciliation and adjustments and payment to FPS owner towards their margins net of any adjustments; Reliance Retail will detail separately.

Supply Chain and support: Reliance Retail would like to improve the time to respond to customer requirements of range and work towards ensuring almost a D+2 type delivery to all stores; and D+1 where possible (i.e. D being date of order Reliance Retail are able to deliver either the next day or within 48 hours after order). Reliance Retail would like to be able to support this for a large range of items in the catalogue; even if the same are not physically in the store. For us to be able to deliver this level of response; Reliance Retail would need to carry inventory as close to the stores as possible. Given that Reliance Retail are seeking to serve 500 FPS by district and then expanding to all locations; Reliance Retail believe that it would be beneficial if Reliance Retail are able to establish a full DC / Warehouse in every District Headquarter. Reliance Retail would then use these DC’s to cater to all the FPS sites in the District.

2. In the light of the above, the Vice-Chairman and Managing Director, A.P. Sate Civil Supplies has requested to approve the above proposal with reference to terms and conditions of MoU with the suppliers of FMCG., products for Village Malls.

3. After careful examination of the entire matter, Government hereby approve the proposal with reference to the terms and conditions of MoU, subject to condition that to incorporate the following under clause Capital Expenditure and Support while entering into MoU with Reliance Retail Ltd.

-Reliance Retail Ltd., will bear 100 % cost of branding & fixtures/shelves.

-FPS will bear 100% cost of civil modifications not limited to civil works, plastering (POP), electrical & plumbing works, fans, etc. Reliance Retail Ltd., has proposed to extend soft loan to FPS dealer to cover the cost of civil modifications with interest rate @ 8 % on monthly equated EMIs for 48 months. Availing soft loan by FPS dealer from Reliance Retail Ltd., to cover the cost of civil modification will be at the sole discretion and decision of FPS dealer. Reliance Retail Ltd., has to share transparently the cost of civil modifications that it will undertake at the FPS dealer shop and takes written confirmation from FPS dealer in advance before incurring such expenditure.

4. The Vice-Chairman and Managing Director, A.P. Sate Civil Supplies Corporation Ltd., is also directed to incorporate a suitable clause while entering into MOU with Reliance Retail. i.e., the Government would only facilitate allotment of land either by land acquisition or its own land but the total cost of such land allotted shall be borne by Reliance.

5. The Vice-Chairman and Managing Director, A.P. State Civil Supplies Corporation is requested to take necessary action accordingly.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

B.RAJSEKHAR
E.O.PRINCIPAL SECRETARY TO GOVERNMENT

To
The Vice-Chairman and Managing Director,
A.P. State Civil Supplies Corporation Ltd., Vijayawada.
Copy to:
The Commissioner of Civil Supplies, Gollapudi, Vijayawada.
The Chairman, State Food Commission, Vijayawada.
SF/SC

//FORWARDED BY ORDER //

SECTION OFFICER